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FM AMEMBASSY BUENOS AIRES
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INFO RUEHAC/AMEMBASSY ASUNCION PRIORITY 5288
RUEHBR/AMEMBASSY BRASILIA PRIORITY 5057
RUEHCV/AMEMBASSY CARACAS PRIORITY 0814
RUEHLP/AMEMBASSY LA PAZ PRIORITY 3921
RUEHMN/AMEMBASSY MONTEVIDEO PRIORITY 5251
RUEHSG/AMEMBASSY SANTIAGO PRIORITY 4878
RUEHRG/AMCONSUL RECIFE PRIORITY 0099
RUEHRI/AMCONSUL RIO DE JANEIRO PRIORITY 1847
RUEHSO/AMCONSUL SAO PAULO PRIORITY 2738
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOG/USDOC WASHDC PRIORITY
RHEBAAA/USDOE WASHDC PRIORITY
RHMFISS/HQ USSOUTHCOM MIAMI FL PRIORITY

UNCLAS SECTION 01 OF 05 BUENOS AIRES 000119

SIPDIS

SENSITIVE
SIPDIS

WHA FOR AMBASSADOR TOM SHANNON, AMBASSADOR CHARLES SHAPIRO
AND PATRICK DUFFY
NSC FOR DAN FISK
SOUTHCOM FOR POLAD AND J5 FOR JUAN RENTA
USDOC FOR 4322/MAC/OLAC/BASTIAN/PEACHER

E.O. 12958: N/A
TAGS: [PREL](#) [ECON](#) [EINV](#) [ENRG](#) [EFIN](#) [AR](#) [BL](#) [VE](#)
SUBJECT: MINISTER DE VIDO DISCUSSES ECONOMIC AND ENERGY
ISSUES WITH CODEL MCCONNELL

Summary

¶1. (SBU) Minister of Planning Julio DeVido received CODEL McConnell on January 11. DeVido noted that the GOA and the U.S. Embassy had a constant dialogue and that they worked together to monitor the status of U.S. companies in Argentina. DeVido said he was optimistic about the future of the Argentine economy but admitted that inflation is now the GOA's major challenge. He highlighted the GOA's growing investment in infrastructure and public works. DeVido said the GOA had been faced with a potential energy crisis when it took office and that this crisis had been averted by importing natural gas from Bolivia and fuel oil from Venezuela. The Ministry of Planning is now trying to negotiate the long-term purchase of 20 million cubic meters of natural gas per day from Bolivia to supply to proposed USD 1.2 billion Northeastern Natural Gas Pipeline (GNA). Plans are also moving forward for the construction of a USD 11 billion natural gas pipeline from Puerto Ordaz, Venezuela to northeast Brazil and from there to Sao Paulo and on to Argentina. Finally, DeVido said the GOA plans to use the greater mandate it obtained in the October 23, 2005 elections to pass legislation that would promote investment in the energy sector and obtain support for long-term economic policies. End Summary.

The Status of the Bilateral Relationship

¶2. (U) Minister of Planning Julio DeVido received CODEL McConnell on January 11. DeVido was accompanied by economic advisor and Secretary of Communications Guillermo Moreno. CODEL McConnell was accompanied by the Ambassador and the Economic Counselor (notetaker). DeVido began the meeting by

reminding the delegation that his first official meeting as Minister of Planning was with Senator Mel Martinez when the then-U.S. Secretary for Housing and Urban Development led the U.S. delegation to the inauguration of President Kirchner on May 26, 2003. Senator Mitch McConnell asked DeVido for his thoughts and said that the delegation would later like to ask a number of questions.

13. (SBU) DeVido noted that the GOA and the U.S. Embassy had a constant dialogue and that they worked together to monitor the status of U.S. companies in Argentina. The venue for this joint effort had been his personal office and a series of meetings and events at the Ambassador's residence. DeVido explained that Argentina's economic crisis had led to the renegotiation of public service contracts. Thanks to the good offices of the U.S. Embassy, a constructive dialogue had developed that resulted in U.S. companies like AES and Pioneer Natural Resources being the first companies to had waive their ICSID international arbitration claims and enter into new agreements with the GOA.

14. (SBU) DeVido added that he had traveled to the U.S. in December at the invitation of the Council of the Americas in New York, where he had met with an audience of 300 businessmen who were "very interested in investing" in his areas of responsibility, e.g., energy, mining, transportation, communications, and infrastructure/public works. He had also met separately with Deutschebank, Fintech, ExxonMobil, and CMS, all of whom "are interested in investing in Argentina." He said he was now working with Argentine Consul General in New York Hector Timmerman to organize a reverse visit with U.S. investors in Buenos Aires in April.

BUENOS AIR 00000119 002 OF 005

The Argentine Economy

15. (SBU) DeVido said he was optimistic about the future of the Argentine economy. The GOA had renegotiated its private debt and had paid off its IMF debt in full. Total debt has been reduced by USD 67 billion to USD 110 billion and debt as a percent of GDP has been reduced from 150 percent to 50 percent. GDP has increased by 9 percent per year for the last three years and the Ministry of Planning believes Argentina can reach 9 percent growth again in 2006. Unemployment was 23 percent when President Kirchner took office and is now 10 percent. Inflation was 12 percent in 2005 and is expected to be at the same level or reduced to 11 percent in 2006. DeVido also admitted that inflation is now the GOA's major challenge. The solution is for consumer protection agencies to establish clearer ground rules for competition and for the state "to recover its former ability to examine cost structures" to determine adequate pricing.

16. (SBU) DeVido highlighted the GOA's growing investment in infrastructure and public works, including housing, ports, airports, roads and bridges. Investment in infrastructure and public works has increased from USD 800 million in 2003 to USD 1.8 billion in 2004, USD 2.7 billion in 2005 and a projected USD 4 billion in 2006. Regarding the U.S., the Ministry of Planning is working with the Secretary of Communications in Brazil on the digitization of TV. The Ministry of Planning is very interested in U.S. Secretary of Commerce Carlos M. Gutierrez' offer to work with Argentina on the U.S. digital TV standard. President Kirchner will make a state visit to Brazil to meet with President Lula on January 18 and this subject will probably be discussed at that time.

Argentina's Energy Equation

17. (SBU) DeVido said the GOA had been faced with a potential energy crisis when it took office. This crisis had been averted using guidelines provided by President Kirchner and the Energy Plan that the Ministry of Planning announced in May 2004. The Energy Plan was based on the expansion of the electric transportation system, which is already under way, and the construction of additional power generation capacity, which will soon be put out for bid. The Ministry of Planning intends to build two combined-cycle power generating plants north and south of Rosario, in Santa Fe Province, with a combined capacity of 1,000 megawatts. He said that he had already spoken to GE of the U.S., Alcatel Alsthom of France, and Mitsubishi of Japan about these projects and that he expected great participation in the bidding process. He added that Citigroup of the U.S. had recently offered to finance this and other gas-fired thermal power projects.

18. (SBU) DeVido explained that Argentina's energy equation was heavily dependent on natural gas, with natural gas providing over 50 percent of Argentina's energy needs. The production and transport of natural gas was one of the bottlenecks that the Ministry of Planning found when he took office. The Ministry of Planning solved this problem in the winter of 2004 by: 1) importing 5 million cubic meters of natural gas per day via the then-unused Yacuiba-Pocitos natural gas pipeline between southern Bolivia and northwest Argentina; and 2) importing 200,000 tons of fuel oil from Venezuela to be used in Argentina's coastal power plants,

BUENOS AIR 00000119 003 OF 005

displacing natural gas for use in other sectors (such as industrial manufacturing and residential heating).

19. (SBU) The Ministry of Planning is now trying to negotiate the long-term purchase of 20 million cubic meters of natural gas per day from Bolivia to supply the proposed USD 1.2 billion Northeastern Natural Gas Pipeline (GNA) which would provide natural gas for the provinces of Salta, Jujuy, Formosa, Chaco, Corrientes, Misiones, Entre Rios and Santa Fe, including the industrial center and port of Rosario. Describing Argentina's regional energy relationship, DeVido said that Argentina consumes 130 million cubic meters of natural gas per day, exports 20 million cubic meters per day to Chile, imports 5 million cubic meters per day from Bolivia, and wants to increase this latter amount to 25 million cubic meters per day. This is much different than Brazil, which consumes 65 million cubic meters per day and imports 27 million cubic meters per day from Bolivia. This means that Brazil is and will continue to be much more dependent on natural gas from Bolivia than Argentina, even after the proposed construction of the GNA pipeline. The price for the purchase of Bolivian natural gas would be part of the President Kirchner discussions with President Lula on January 18.

110. (SBU) Plans are also moving forward for the construction of a USD 11 billion natural gas pipeline from Puerto Ordaz, Venezuela to northeast Brazil and from there down to Sao Paulo and on to Argentina. Brazil would be able to finance most of the project, since 90 percent of the pipeline would be in Brazil, with only 5 percent in Venezuela and 5 percent in Argentina. The GOA would also go to the international markets to help finance its part of the project. The supply of Venezuelan natural gas is very important to the Sao Paulo-Rosario-Buenos Aires industrial axis and would have a great economic impact on both countries. Comment: Local energy analysts argue that the lack of natural gas reserves in Venezuela, high construction costs, lack of financing and environmental challenges, such as crossing the Amazon, make this project unfeasible. They explain that much of the associated natural gas found in Venezuela is reinjected into the fields to extract oil. At the same time, there is not enough unassociated natural gas to justify such a pipeline. End Comment.

¶11. (SBU) Senator Richard Burr asked why the Ministry of Planning was involved in organizing the construction of additional power generating capacity in a sector that had been privatized. DeVido responded that the Ministry of Planning had to subsidize the difference between the fixed price of domestically produced natural gas and the imported price of fuel oil for power generation in those plants that were forced to use fuel oil and that the government had required those plants to invest 65 percent of their subsidies in additional power generating capacity. The rest of the financing will come from an industrial tariff increase that will be refunded to the industrial users after a five year grace period.

Bolivia and Venezuela

¶12. (SBU) Senator John Thune said the U.S. appreciates Argentina's contribution to democracy in the hemisphere, its support in the UN with non-proliferation in Iran, its cooperation on counterterrorism in the tri-border area, its economic partnership with U.S. companies in Argentina, and its cooperation with security interests in the region. He stressed that both countries had much in common in shared

BUENOS AIR 00000119 004 OF 005

values and objectives and congratulated Argentina on its economic turnaround. He then asked DeVido for his assessment of developments in Bolivia and Venezuela.

¶13. (SBU) Regarding Bolivia, DeVido replied that the GOA has always supported the Government of Bolivia and is currently providing USD 50 million per year in royalties for the purchase of natural gas. The purchase of additional volumes of natural gas from Bolivia would provide even more resources for the GOB. DeVido said he had tried to make contact with the Morales team on two occasions, but both meetings were canceled. DeVido observed that it is unclear how the leadership within the Morales government will be consolidated, since there are divisions between Morales' supporters. President-Elect Evo Morales Ayma, Vice-President-Elect Alvaro Garcia Linera and two gas experts will be coming to Buenos Aires on January 17, which will be the GOA's first opportunity to meet with the Morales team. "We can't say that Bolivia is like Venezuela, yet," he said.

¶14. (SBU) Concerning Venezuela, DeVido responded that the GOA had increased Argentina's commercial relationship with Venezuela from USD 150 million to USD 1 billion. The GOA purchased fuel oil from Venezuela in 2004 and 2005 and the payment for this fuel oil has gone into a fund that has been used to purchase hydroelectric equipment from an Argentine turbine manufacturer, agricultural tractors and combines, medical equipment, and agricultural technology, especially in the areas of soybeans and beef. The newly established Argentine state oil company ENARSA will also be working with private oil companies to exploit a heavy oil area along the Orinoco River. The Ministry of Planning has also invited Venezuelan oil company PDVSA to explore for oil and gas in Argentina's offshore blocks, but the Ministry of Planning "has not signed anything yet." Comment: The GOA announced on January 11 that Repsol YPF of Spain, Petrobras of Brazil, ANCAP of Uruguay and ENARSA had agreed to invest between USD 40 and USD 100 million in the exploration of oil in the Cuenca Colorado Marina offshore block east of Buenos Aires Province. This will be the GOA/ENARSA's first entry into oil and gas activities since formerly state-owned YPF was privatized in 1999. End Comment.

¶15. (SBU) Senator Thune said the GOA was in a position to use Argentina's growing economic relationship with Venezuela to support democracy in that country. DeVido responded that President Kirchner had met with the Venezuelan opposition. He also thought it was a mistake for the Venezuelan

opposition to refuse to participate in the recent national elections. "You can lose one election," he reasoned, "but you can win another."

Intellectual Property

¶16. (SBU) Senator Burr said that U.S. investors needed to know that their intellectual property would be protected if they invested in Argentina. He then asked how the Ministry of Planning treated intellectual property from outside the country. DeVido said that the royalties in his areas of responsibility were always paid and that he did not know if any IPR conflicts in his area. He acknowledged that there were conflicts in the agricultural and pharmaceutical sectors, but these areas were outside his area of responsibility, in which case it would be better to consult with the Ministry of Foreign Affairs. Senator Burr noted that there was an issue regarding the analog to digital conversion of broadcast TV to protect movie producers from

BUENOS AIR 00000119 005 OF 005

illegal reproduction. DeVido replied that he understood the Senator's concern.

¶17. (SBU) Senator Martinez congratulated DeVido on the GOA for its success in overcoming a severe economic and political crisis and for having restored peace of mind to the Argentine people. He added that the U.S. is concerned about Latin America and wants to establish a better and closer relationship with the region.

¶18. (SBU) Senator McConnell asked what the GOA planned to do with the greater mandate it had obtained as a result of the October 23, 2005 national elections. DeVido replied that governance would be much easier since the GOA now had the simple majority that is needed for the passage of most legislation. The GOA also has a series of bills that it hopes to pass this year. For example, the Ministry of Planning has prepared draft legislation that would convert a presidential decree into a law to promote investment in the energy sector, such as oil and natural gas pipelines and power plants. Converting the presidential decree into a law will provide greater judicial security for investors, lower the interest rates on the financing needed for projects in the sector, and thereby facilitate investment. The GOA will also use its mandate to work with the political opposition to obtain support for long-term economic policies.

GUTIERREZ